

*KaufmanHall*

MAY 2022

# The Financial Effects of Hospital Workforce Dislocation

A Special Workforce Edition of the National Hospital Flash Report

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# The Financial Effects of Hospital Workforce Dislocation: A Fact Base

The pandemic and its complex social and economic effects have dislocated the modern workforce, creating an intense and likely long-term problem for employers across industries and for the people who rely on the workforce for important goods and services.

In healthcare, the problem is especially profound. During the pandemic, almost 1 in 5 healthcare workers quit their jobs.<sup>1</sup> One-third of nurses plan to leave their current roles by the end of 2022, with more than a quarter of those intending to become traveling nurses.<sup>2</sup>

At the same time, hospitals find themselves competing with non-hospital employers that are aggressively pursuing hourly staff—companies that can pass along wage increases to consumers in the form of higher prices in a way that healthcare organizations cannot.

The resulting labor shortages are a top concern for hospitals' efforts to remain financially stable and to deliver safe, high-quality care.<sup>3</sup>

As we speak with CEOs around the country, their first word is usually “workforce.”

We hear a number of observations about what may be contributing to the problem, about the damage the problem is causing, and about the short-term and long-term actions that need to be taken to stabilize the workforce.

**However, the first desire expressed by healthcare executives and boards is for a fact base on which to base their next moves.**

Leaders seek to understand the dimension of the problem: how their local situation compares with other hospitals regionally and nationally, and what the effects have been on an expense base already under pressure and on margins already narrow to negative from the pandemic.

In a Special Workforce Edition of Kaufman Hall's *National Hospital Flash Report*, we provide that critical fact base.

#### Sources:

1. Galvin, G.: “Nearly 1 in 5 Health Care Workers Have Quit Their Jobs During the Pandemic,” *Morning Consult*, Oct. 4, 2021.
2. *Study: 34% of Nurses Plan to Leave their Current Role by the End of 2022*, Incredible Health, 2021.
3. Special Report: Top 10 Patient Safety Concerns 2022. ECRI and the Institute for Safe Medication Practices, 2022.

*The Financial Effects of Hospital Workforce Dislocation: A Fact Base (continued)*

Following are some of our key findings:

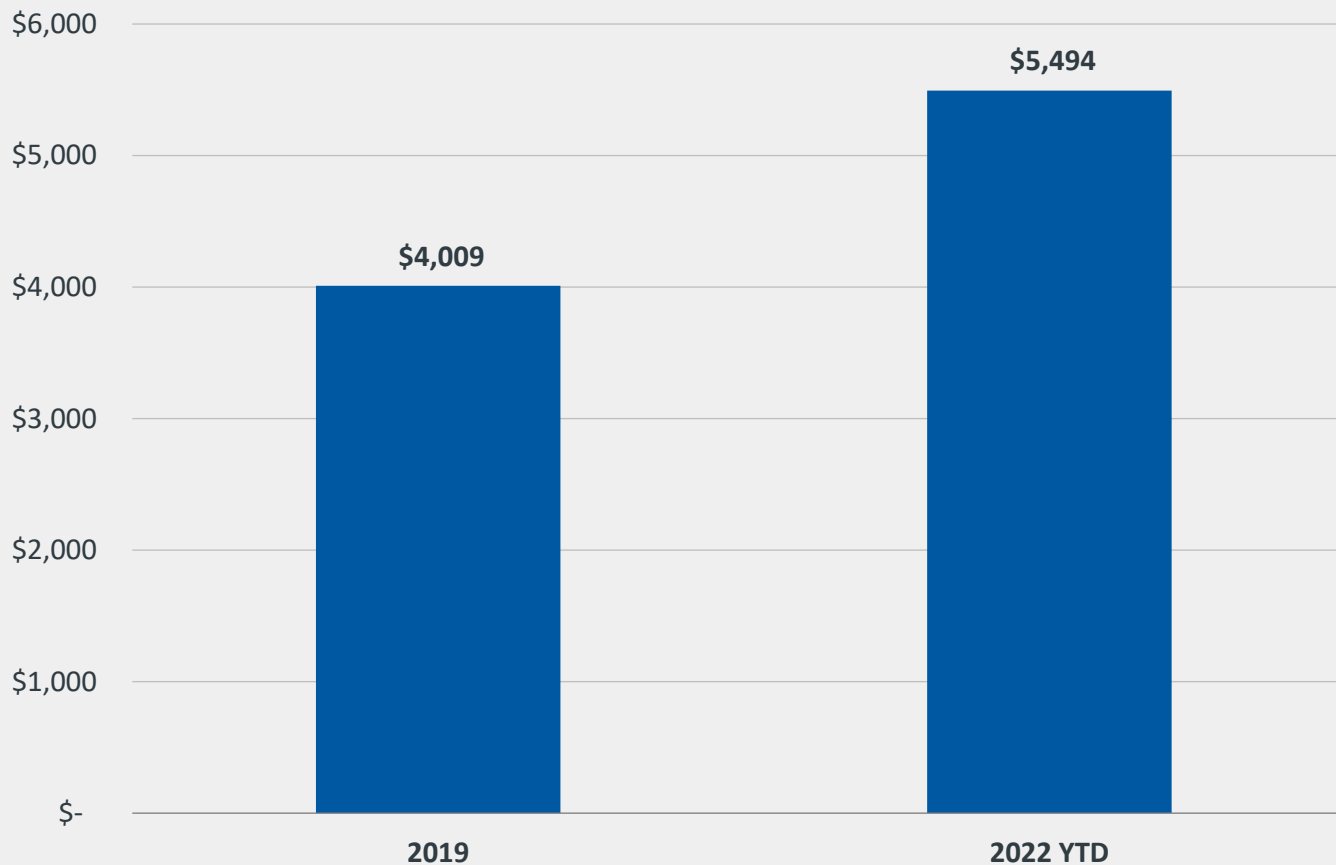
- **Nationally, hospital labor expenses increased by more than one-third from pre-pandemic levels**
- **The largest increases were in the South and West, while the highest expense levels consistently were in the West and Northeast/Mid-Atlantic**
- **Contract labor as a percentage of total labor expenses increased more than five times the rate from pre-pandemic levels**
- **As of March 2022, the median wage rate for contract nurses had risen to more than three times that of employed nurses**
- **In the first three months of 2022, hospitals saw dramatic declines in YTD operating margin in a perfect storm of expense, volume, and revenue pressures attributable largely to the effects of COVID**

These findings suggest that healthcare leaders will need to confront the workforce challenge on multiple levels. Financial plans will need to be reworked to accommodate higher labor expenses moving forward. Recruitment and retention strategies will need to be sensitive to subtly different segments of people and jobs. Real-time data will need to be used to improve process and workforce efficiency. And the nature of work itself will have to be redefined for the new socio-economic environment.

For the sake of patients and communities, and for the workers who have given so much of themselves during the unbelievable stress of the pandemic, healthcare executives will need to bring their most flexible attitudes and their most creative thinking to a challenge of great dimension and even greater complexity.

# Labor Expenses Increased More than One-Third from Pre-Pandemic Levels

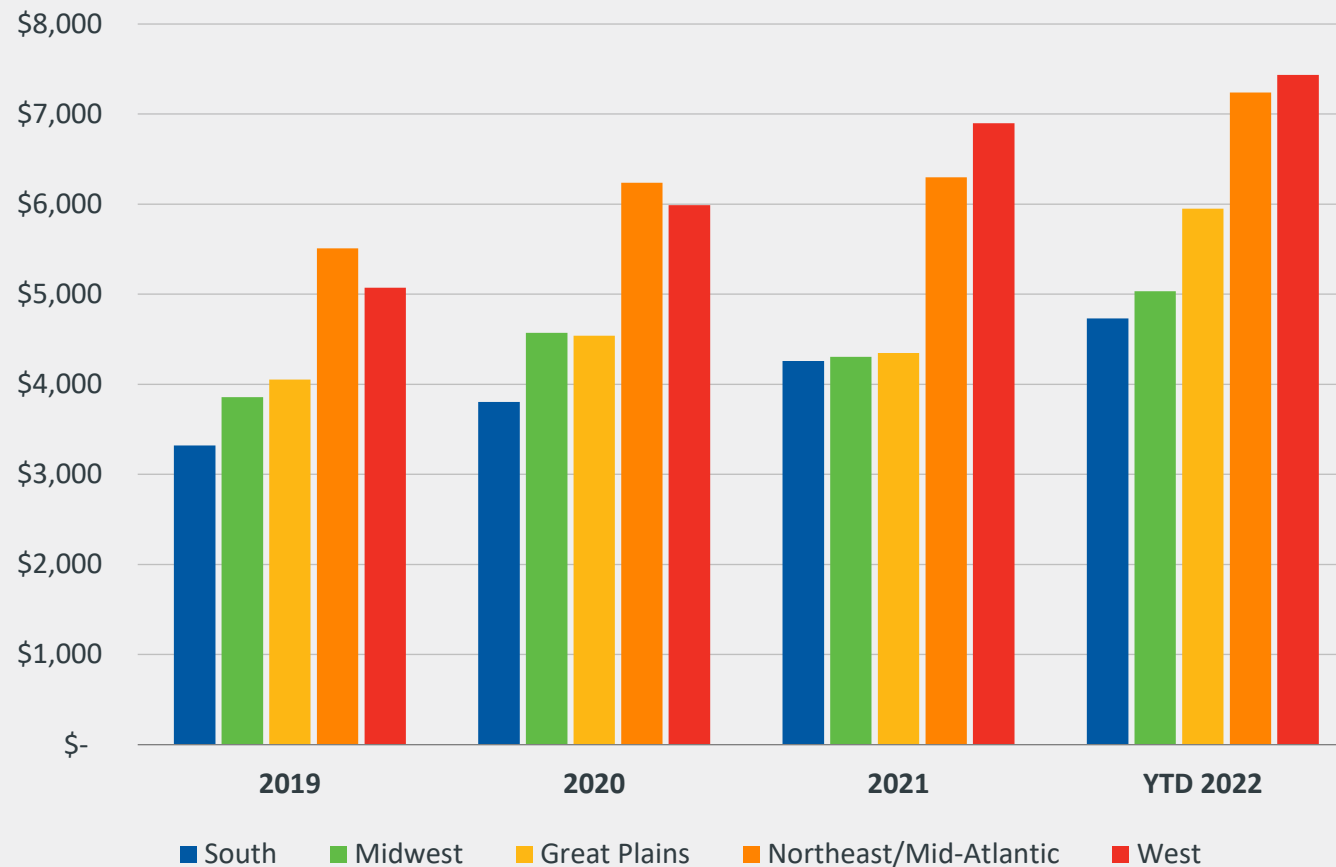
Median Labor Expense per Adjusted Discharge, 2019-March 2022



- Labor expense per adjusted discharge increased by more than one-third from pre-pandemic levels through March 2022
- Labor as a percentage of total expenses increased from 46% to 49% during this same period
- These expense increases were due largely to labor shortages, leading to the increased use of more expensive contract labor, as shown in the following pages

# The South and West Had the Biggest Increases in Labor Expenses

Median Labor Expense per Adjusted Discharge by Region, 2019-March 2022

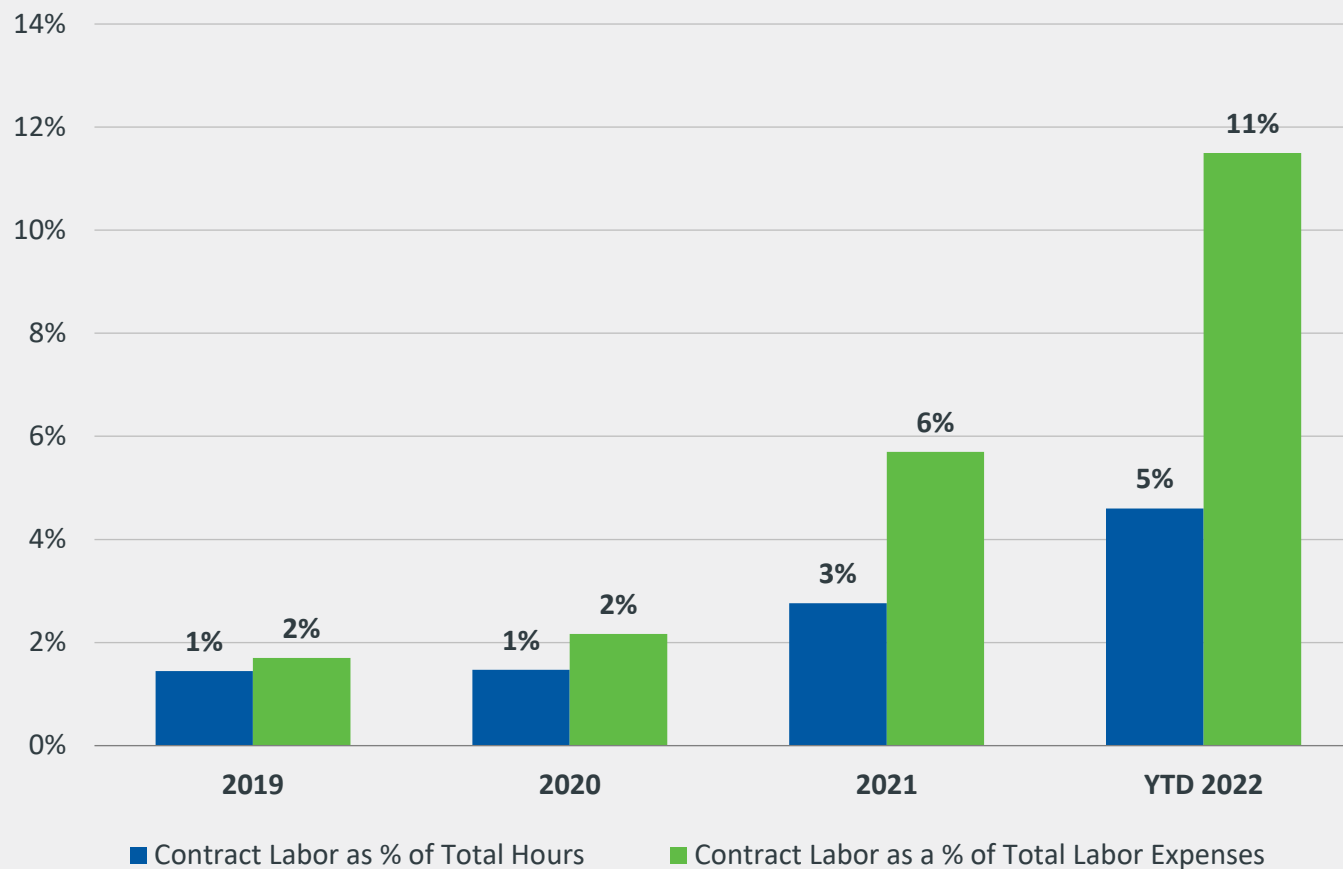


- All regions had notable increases in labor expenses from pre-pandemic levels through March 2022
- The South and West had the highest percentage increases in labor costs, 43% and 42% respectively
- The West and Northeast/Mid-Atlantic regions consistently had the highest labor expenses across this time period

Source: Kaufman Hall

# Contract Labor Was a Major Factor in Rising Hospital Expenses

Contract Labor as a Percentage of Total Hours and Total Labor Expenses, 2019-March 2022

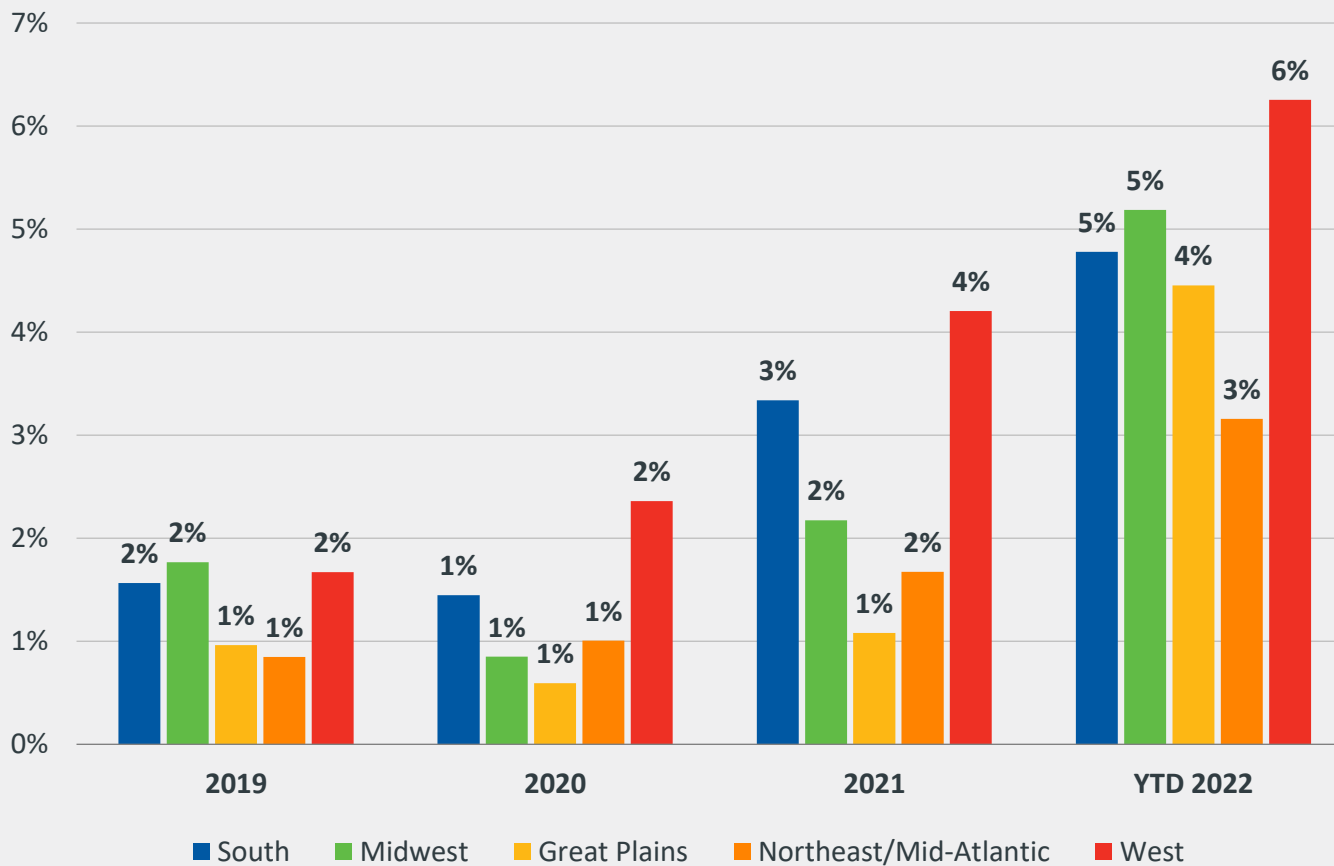


- The use of contract labor rose significantly from 2019 through March 2022, while the cost of contract labor rose even more dramatically
- Contract labor as a percentage of total labor expenses increased more than five times the rate from pre-pandemic levels

Source: Kaufman Hall

# Use of Contract Labor Increased at Least Two Times Pre-Pandemic Levels in All Regions

Contract Labor as a Percentage of Total Paid Hours by Region, 2019-March 2022



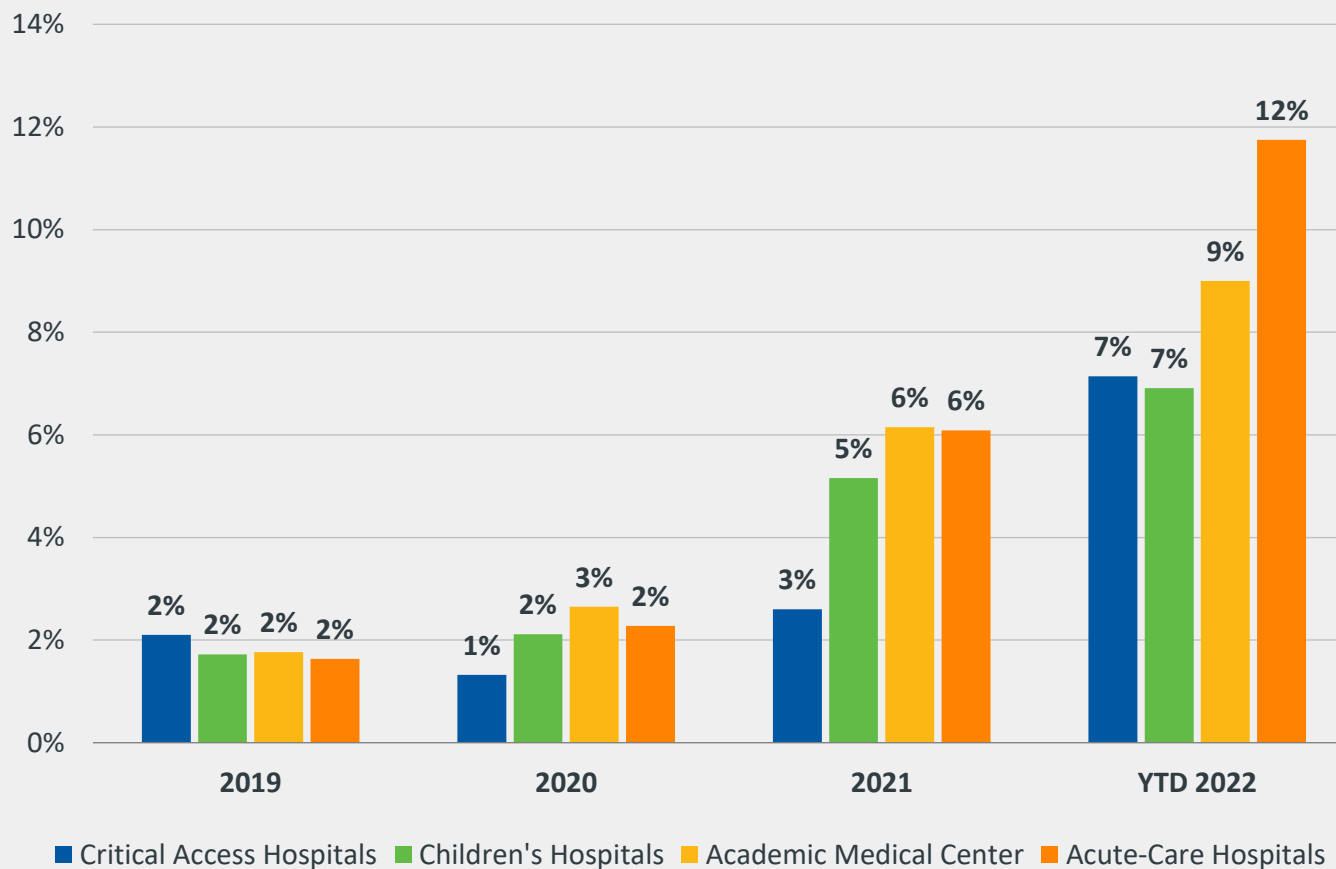
- Hospitals in all regions used far more contract labor in 2021 and 2022
- Contract labor as a percentage of total paid hours increased more than two times the rate from pre-pandemic levels in the South and Midwest, and from three to four times pre-pandemic level rates in the Great Plains, Northeast/Mid-Atlantic, and West

Source: Kaufman Hall



# In All Hospital Types, Contract Labor Expenses Increased Dramatically as a Portion of Total Labor Expense

Contract Labor as a Percentage of Total Labor Expense by Hospital Type, 2019-March 2022

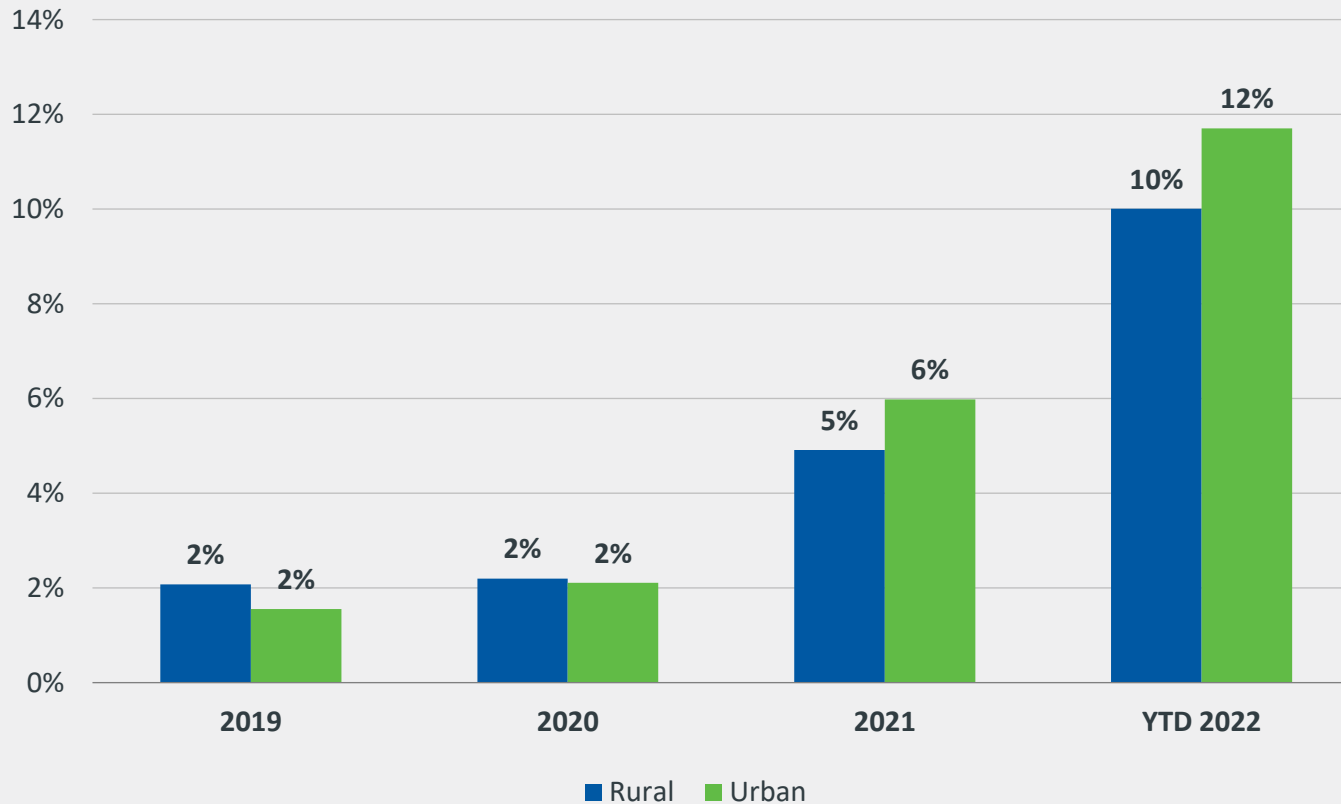


- All hospital types had major increases in contract labor as a percentage of total labor expense
- Contract labor as a percentage of total labor expense increased more than three times the rate from pre-pandemic levels for critical access and children’s hospitals, more than four times for academic medical centers, and six times for acute-care hospitals

Source: Kaufman Hall

# Rural and Urban Hospitals Both Experienced Increases in Contract Labor Expenses

Contract Labor as a Percentage of Total Labor Expense in Rural and Urban Hospitals, 2019-March 2022

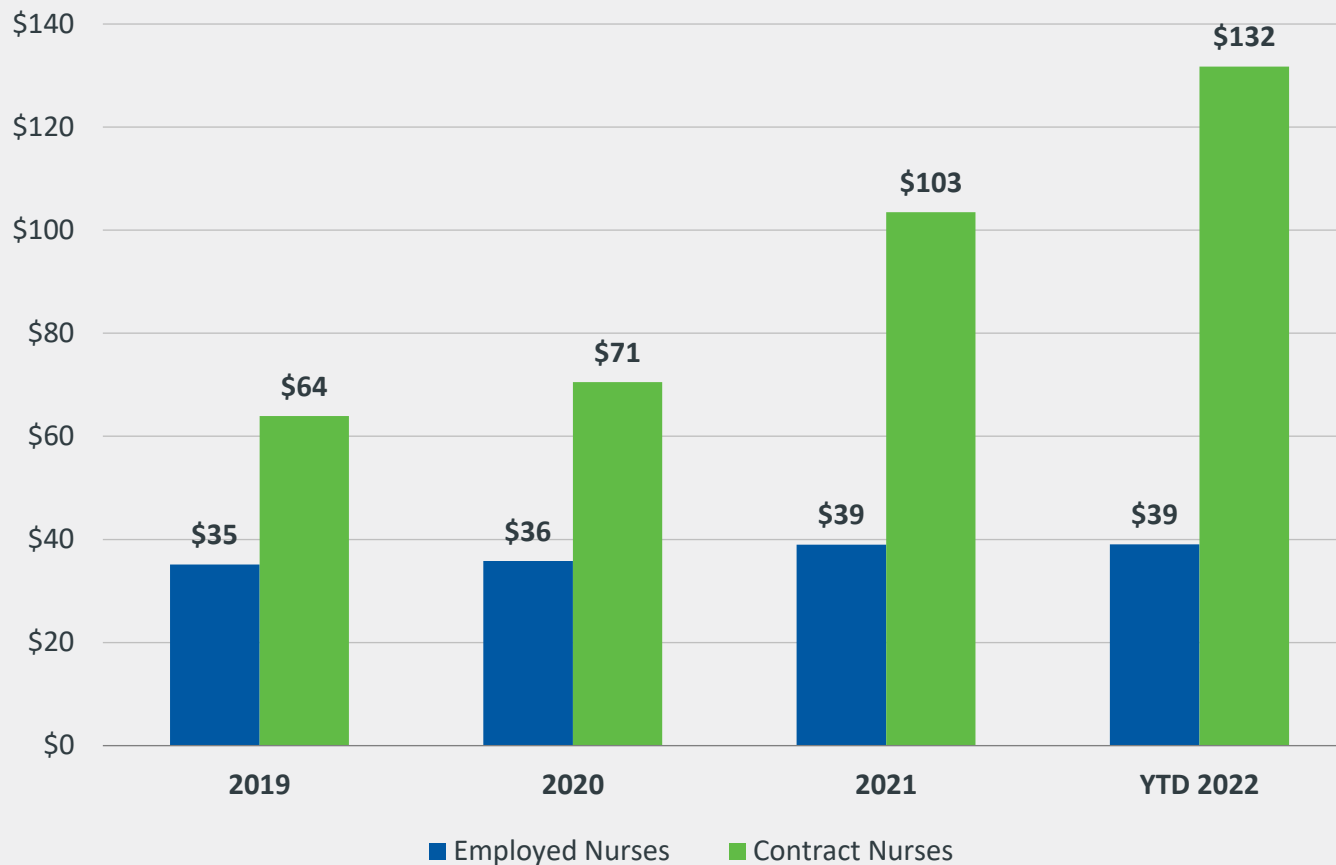


- Both rural and urban hospitals experienced a dramatic increase in contract labor as a percentage of total labor expenses
- The increase was somewhat greater for hospitals in urban areas

Source: Kaufman Hall

# As Demand for Contract Labor Increased, So Did Its Wage Rates

Median Hourly Wage Rates for Employed and Contract Nurses

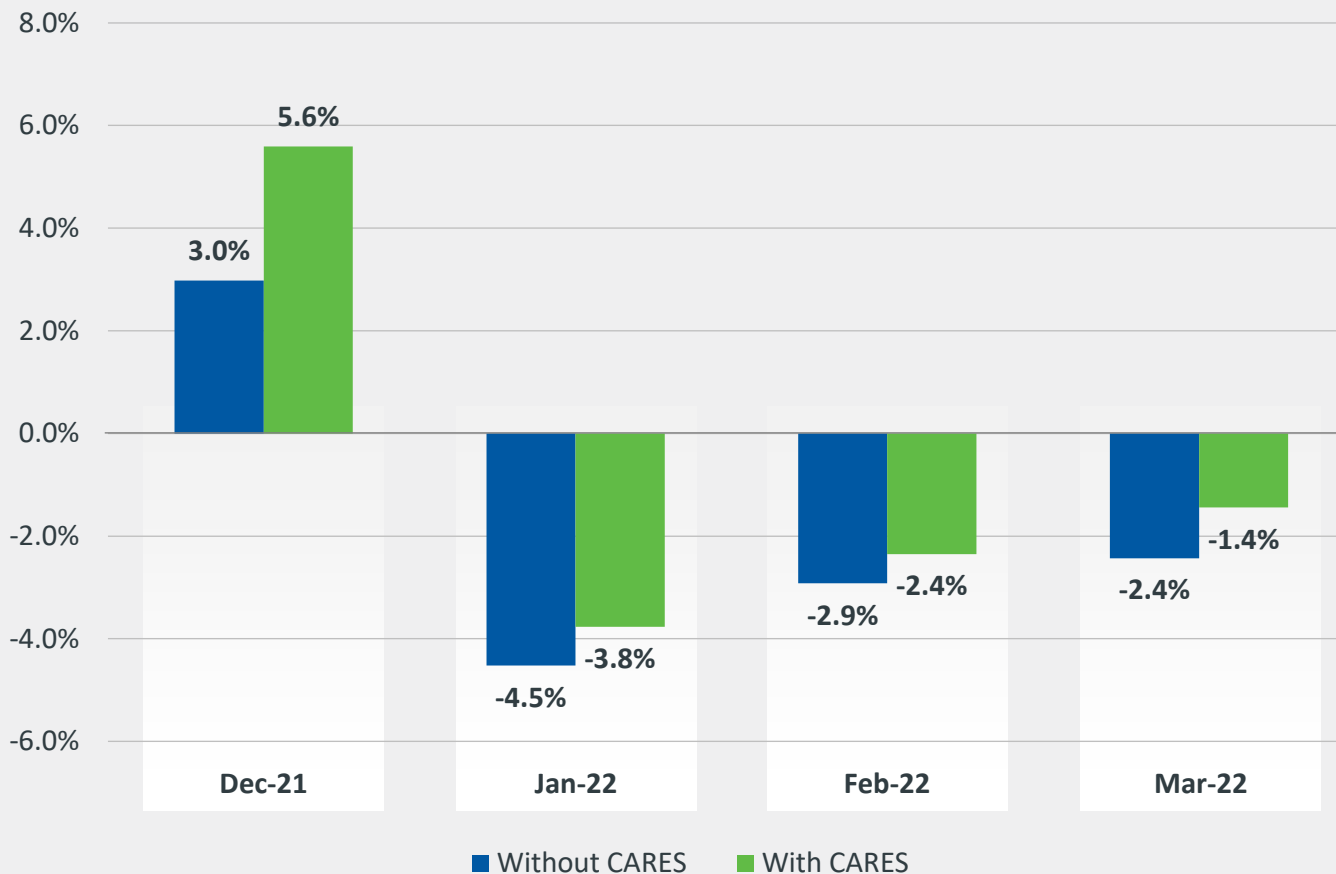


- Pre-pandemic, wage rates for contract nurses were almost double those for employed nurses
- As the pandemic continued and labor shortages intensified, that wage gap increased significantly
- As of March 2022, the median wage rate for contract nurses was more than three times higher than the wage rate for employed nurses

Source: Kaufman Hall

# A Combination of Expense, Volume, and Revenue Pressures Led to Steep Margin Declines So Far in 2022

Median Hospital YTD Operating Margin Index\*



- In the first three months of 2022, hospitals saw dramatic declines in YTD operating margin
  - Between December 2021 and March 2022, median operating margins with CARES funding fell from 5.6% to -1.4%
  - Not including CARES funding, margins fell from 3% to -2.4% during that same period
- These declines came from a perfect storm of expense, volume, and revenue pressures attributable largely to the effects of COVID

\*Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.  
 Source: Kaufman Hall National Hospital Flash Report

# About the Data

This Special Workforce Edition of the National Hospital Flash Report uses actual data over the last three years, sampled from more than 900 hospitals on a recurring monthly basis from Syntellis Performance Solutions.

The sample of hospitals for this report is representative of all hospitals in the United States both geographically and by bed size. Additionally, hospitals of all types are represented, from large academic to small critical access. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report.

While this report presents data in the aggregate, Syntellis Performance Solutions also has real-time data down to individual department, job code, pay type, and account levels, which can be customized into peer groups for comparisons to drive operational decisions and performance improvement initiatives.

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